



## An Enterprise Odyssey: Managing Change to Achieve Quality Development

# **New developments of current regulations on non-financial reporting**

**An analysis of selected different regulations**

May 23-26, 2018  
Zagreb, Croatia

- 1. Introduction**
- 2. Initial legal situation**
  - 2.1 Obligation for a non-financial statement
  - 2.2 Non-financial aspects
- 3. Content analysis of central regulations**
  - 3.1 Introduction to the German Sustainability Code
  - 3.2 Analysis of the German Sustainability Code
  - 3.3 The German Accounting Standard No. 20
- 4. Results of the analysis**
- 5. Conclusion**

# 1. Introduction

- From **reporting year 2017** extended reporting requirements will apply to **certain large companies**
- **Non-financial reporting** is becoming increasingly important as a result of an EU directive
- The aim is to create **transparency** in corporate social and environmental reporting
  - A **consistent** and **comparable** level of reporting by companies of all sectors at European level

- Disclosure of information on sustainability is important in order to **strengthen the confidence** of consumers in companies
- **Sustainability** has to be increasingly considered as an important **part of corporate governance**
  - Sustainability effects of business activity as an important criterion for investors and customers
  - Criteria are used in decision-making processes in the context of awarding contracts

## 2. Initial legal situation

- The relevance of non-financial aspects in the context of corporate reporting is promoted by **legislative measures**
  
  - EU-Level
    - **EU-Directive 2014/95/EU**
  
  - National-Level (in Germany)
    - National implementation of the directive
    - **CSR-Reporting Act (CSR-RUG)**
- The law applies retroactively from **January 1, 2017**
- Non-financial statements under this legislation are about to be published for the first time in **2018**



## 2. Initial legal situation

- The significance of the **management report** is strengthened
  - The management report provides a **more comprehensive overview** of the corporate situation
- **Additional information** for different **stakeholder groups**
  - Assessment of the company also on the basis of non-financial aspects
  - Not only the view on exclusive financial information (esp. traditionally focuses on the company's profit)

## 2. Initial legal situation



- preparers have the option of using **national and international frameworks** to draw up the non-financial statement
- **The Sustainability Code (DNK)**
- The **Eco-Management and Audit Scheme (EMAS)** of the EU
- **Global Reporting Initiative (GRI Standard)**



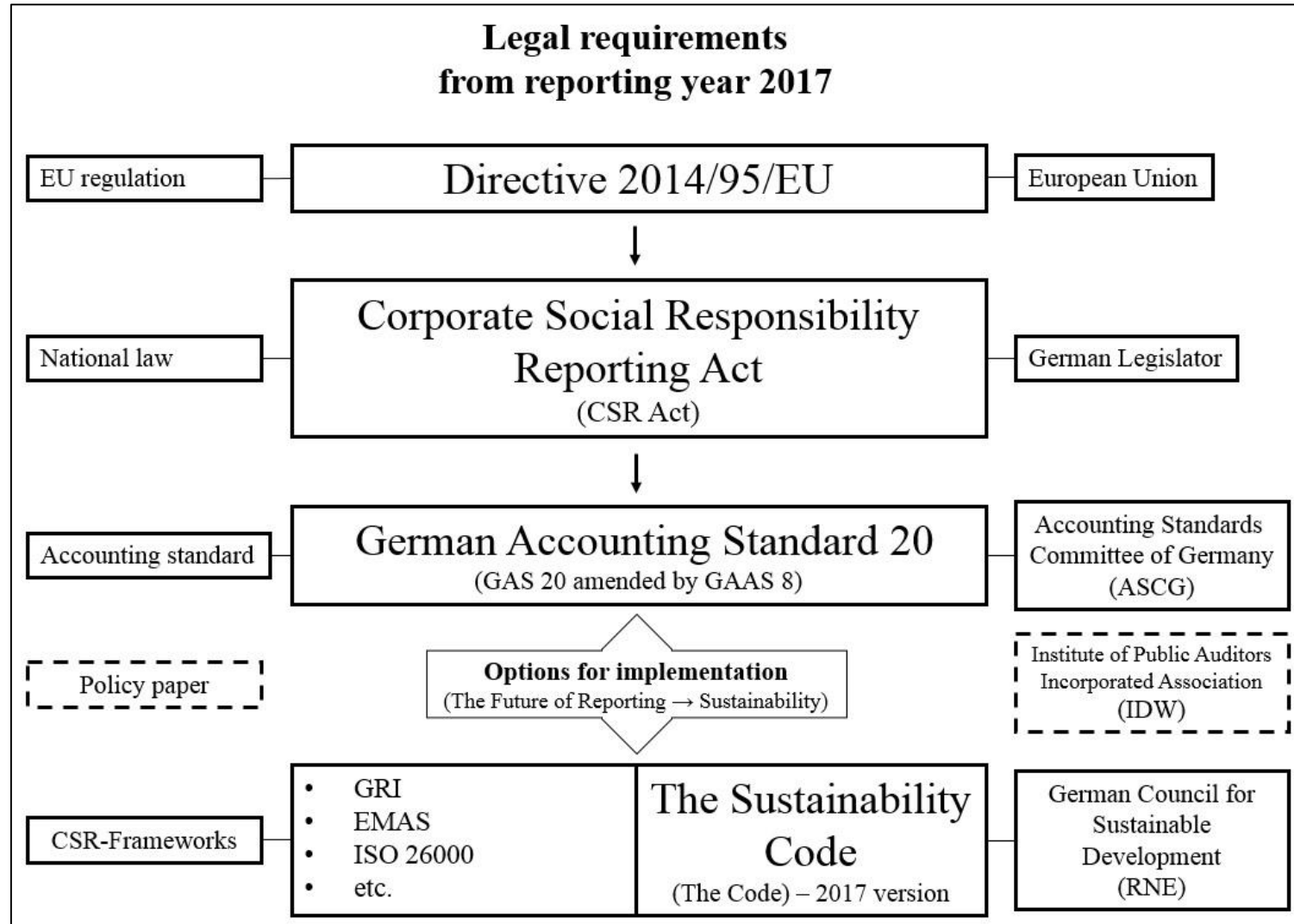
## 2. Initial legal situation

- A non-financial statement can also be published in the **(group) management report**
  - The CSR-RUG made it necessary to revise the **German Accounting Standard No. 20**
  - Implemented with the **GAAS 8**



## 2. Initial legal situation

### ■ Overview: Central frameworks and relevant accounting standards



- The guidelines for extending the management report to include a non-financial statement apply to a **specific group of entrepreneurs**
- Section **289b (1) of German Commercial Code (HGB)**
  - A “large cooperation”  
Requirements of § 267 para. 3, sentence 1 of HGB,  
Two of three thresholds have to be exceeded on two consecutive balance sheet dates:
    - **A balance sheet total of €20 million**
    - **Sales revenues of €40 million**
    - **More than 250 employees on an annual average**
  - The corporation is oriented towards the capital market in accordance with section 264d of HGB
  - The corporation has an annual average of more than 500 employees.

## 2.1 Obligation for a non-financial statement



- The guidelines for extending the management report to include a non-financial statement apply to a **specific group of entrepreneurs**
  
- **Public interest entities – PIE**
  - For example credit institutions and insurance companies

## 2.2 Non-financial aspects

- In accordance with Section 289c of the German Commercial Code (HGB), the **non-financial statement** initially **contains information on the company's business model**
- Information should also be provided on the following aspects:

**Non-financial aspects**  
**according to § 289c of the**  
**German Commercial Code**  
**(HGB)**

Environmental aspects

Employee aspects

Social aspects

Respect for human rights

Combating corruption and bribery

## 2.2 Non-financial aspects

- **Section 289c of the German Commercial Code (HGB)**
- **Environmental aspects**
  - Greenhouse gas emissions
  - Water consumption
  - Air pollution
  - The use of renewable energies
- **Employee aspects**
  - Indicators on working conditions
  - Gender equality
  - Health and safety at work

## 2.2 Non-financial aspects

- **Section 289c of the German Commercial Code (HGB)**
- Social aspects
  - Dialogue regional level
  - Measures for the protection and development of regional communities
- Respect for human rights
  - Information on the avoidance of human rights violations
- Combating corruption and bribery
  - Available instruments implemented by the company in order to comply that aspect

### 3. Content analysis of central regulations



- The regulations are directly related to a non-financial statement of preparers
  - Subject to regular modifications or adjustments as a result of new developments in sustainability
- The **content analysis** of the **German Sustainability Code** and the **German Accounting Standard No. 20** examines the modifications implemented mainly as a result of the CSR Directive Implementation Act passed by the German Parliament in March 2017

### 3. Content analysis of central regulations



- The **hypothesis** to be checked with the content analysis is as follows:

***The CSR Directive Implementation Act increases the disclosure requirements for non-financial disclosures of companies.***



# 3.1 Introduction to the Sustainability Code



- The **German Sustainability Code** is an internationally applicable reporting framework for presenting the sustainability aspects of a company
- Adopted by the **German Council for Sustainable Development** on October 2011
- The Sustainability Code can also be used at a **European level** as part of the publication of the European Directive on **non-financial reporting by preparers**.



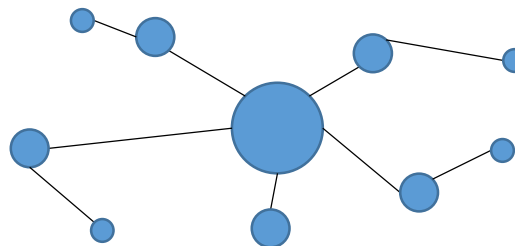
- The Sustainability Code has now been **updated** on the basis of the CSR Directive Implementation Act and adapted to the corresponding statutory requirements.
- These **structural changes** to the updated German Sustainability Code result from the description of the individual issues with regard to
  - **"Concept"**
  - **"Results of the concepts"**
  - **"Risks"**
  - **"Indicators"**

as required by law in accordance with **Section 289c (3) of the German Commercial Code (HGB)**.

# 3.1 Introduction to the Sustainability Code



- The application of the German Sustainability Code is **not only focused on companies subject to formal reporting requirements.**
- This is particularly **relevant for companies that are exempted from the CSR-RUG**, in order to be able to provide non-financial information on individual sustainability aspects in the future due to their **involvement in supply chains.**
- Due to their **supplier structures**, large companies have a wide range of responsibilities, so that **small and medium-sized companies will also have to indirectly publish sustainability aspects in the future.**



*Network of companies*

# 3.1 Introduction to the Sustainability Code



- Based on the **database of the German Sustainability Code**, it becomes clear that a **user group of voluntary reporting** has also been established.
- Corresponding **motives for the voluntary disclosure** of relevant sustainability aspects are to be seen in the **management's conviction** and in the **expectation of the market**.
- The importance of supply chains and the related (required) consolidation of information reinforces companies' insight into the **need to provide relevant information on sustainability issues**.

# 3.1 Introduction to the Sustainability Code



- The Code contains a total of **20 criteria** relating to **corporate strategy, goals, measures, concepts and risks**.

**Table 1:** The 20 criteria of the German Sustainability Code

Criteria regarding <b>STRATEGY</b>	<ul style="list-style-type: none"><li>• Strategic analyses and measures</li><li>• Materiality</li><li>• Targets</li><li>• Depth of the value chain</li></ul>
Criteria regarding <b>PROCESS MANAGEMENT</b>	<ul style="list-style-type: none"><li>• Responsibility</li><li>• Rules and processes</li><li>• Control</li><li>• Incentive systems</li><li>• Participation of stakeholders</li><li>• Innovation and product management</li></ul>
Criteria for <b>ENVIRONMENTAL ISSUES</b>	<ul style="list-style-type: none"><li>• Use of natural resources</li><li>• Resource management</li><li>• Climate-relevant emissions</li></ul>
Criteria regarding <b>SOCIETY</b>	<ul style="list-style-type: none"><li>• Employment law</li><li>• Equal opportunities</li><li>• Qualification</li><li>• Human rights</li><li>• Community</li></ul>
Criteria regarding <b>COMPLIANCE</b>	<ul style="list-style-type: none"><li>• Political influence</li><li>• Conduct in compliance with laws and guidelines</li></ul>

## 3.2 Analysis of the Sustainability Code

- **The analysis with regard to the differences of the German Sustainability Code compared with the previous edition focuses on the main changes of the individual criteria.**

**Table 2:** Comparison of criteria regarding "Strategy" of the German Sustainability Code based on the versions 2017 vs. 2016

	The Sustainability Code (Current Version 2017)	The Sustainability Code (Version 2016)
Criteria 1	The company declares whether or not it pursues a <b>sustainability strategy</b> . It explains what concrete measures it is undertaking to operate in compliance with key recognised sector-specific, national and international standards.	The company discloses how it analyses the opportunities and risks of a sustainable development for its main activities. The company explains which specific measures it takes to operate in compliance with key recognised sector-specific, national and international standards.
Criteria 2	The company discloses the aspects of its business operations that have a significant impact on sustainability issues and what material impact sustainability issues have on its operations. It analyses the positive and negative effects and provides information as to how these insights are integrated into the company's processes.	The company discloses which aspects of sustainability have a significant impact on its business activities and how they take these aspects into account in the strategy and how they are systematically targeted.

- The comparison shows that the new German Sustainability Code explicitly mentions a **sustainability strategy** and that the company has to **disclose** it. The company has to **integrate their sustainability activities into a sustainability strategy** now.

## 3.2 Analysis of the Sustainability Code

- **The analysis** with regard to the differences of the German Sustainability Code compared with the previous edition **focuses on the main changes of the individual criteria.**

**Table 3:** Comparison of the criteria regarding "Environmental issues" of the German Sustainability Code by means of different versions

	The Sustainability Code (Current Version 2017)	The Sustainability Code (Version 2016)
Criteria 12	The company discloses what qualitative and quantitative goals it has set itself with regard to its resource efficiency, in particular its use of renewables, the increase in raw material productivity and the reduction in the usage of ecosystem services, which <b>measures and strategies</b> it is pursuing to this end, how these are or will be achieved, and where it sees there to be <b>risks</b> .	The company discloses the qualitative and quantitative targets it has set itself for its resource efficiency, the use of renewable energies, the increase in raw material productivity and the reduction in the usage of ecosystem services, and how they have been or will be achieved in the future.

- It can be concluded from a comparison that the **use of renewable energies is highlighted**. In addition, a company now has to disclose **concrete measures and strategies** to be taken. **Potential risks** also need to be **analysed** in this context.

## 3.2 Analysis of the Sustainability Code

- **The analysis** with regard to the differences of the German Sustainability Code compared with the previous edition **focuses on the main changes of the individual criteria.**

**Table 4:** Comparison of the criteria regarding "Society" of the German Sustainability Code by means of different versions

	The Sustainability Code (Current Version 2017)	The Sustainability Code (Version 2016)
Criteria 14	The company reports on how it complies with nationally and internationally recognised standards relating to employee rights as well as on how it fosters staff involvement in the company and in sustainability management, what <b>goals</b> it has set itself in this regard, what <b>results</b> it has achieved thus far and where it sees <b>risks</b> .	The company reports on how it complies with nationally and internationally recognised standards on employee rights and promotes employee participation in the company's sustainability management.
Criteria 17	The company discloses what measures it takes, strategies it pursues and targets it sets for itself and for the supply chain for ensuring that human rights are respected globally and that forced and child labour as well as all forms of exploitation are prevented. Information should also be provided on the <b>results of the measures</b> and on any material <b>risks</b> .	The company discloses what measures it takes in the supply chain to ensure that human rights are respected worldwide and that forced and child labour and all forms of exploitation are prevented.

- With regard to "Employee rights", preparers have to disclose the **targets** and **results** that have been achieved and disclose **potential risks**. The criterion "Human rights" is becoming more specific and requires now the naming of **strategies and targets** for the company in order to ensure that **human rights are respected worldwide**.



## 3.3 The German Accounting Standard 20



- The **German Accounting Standard No. 20** (GAS 20) generally **regulates the management report** of preparers in accordance with **§ 315 of the German Commercial Code**.
- The aim of reporting in accordance with GAS 20 is to **provide appropriate information** on the **course of business**, the situation and anticipated **developments** as well as the associated potential **opportunities and risks**.



## 3.3 The German Accounting Standard 20



- On **June 2017**, the German Accounting Standards Committee published the draft of a German Amendment Accounting Standard No. 8 (Draft-GAAS 8) with the **aim of formally adapting GAS 20 to the new legal situation**.
- The GAAS 8 therefore represents the extension of the Group management report by a **non-financial statement in the GAS 20**.

**Table 5:** Reportable aspects and examples in GAAS 8

Aspect	Facts (example)
Environmental issues	<ul style="list-style-type: none"><li>• Greenhouse gas emission</li><li>• Water consumption</li><li>• Air pollution</li></ul>
Employee issues	<ul style="list-style-type: none"><li>• Gender equality</li><li>• Working conditions</li><li>• Safety at the workplace</li></ul>
Social issues	<ul style="list-style-type: none"><li>• Dialogue at local or regional level</li><li>• Measures to protect the development of local communities</li></ul>
Respect for human rights	<ul style="list-style-type: none"><li>• Measures to avoid human rights violations</li></ul>
Combating corruption and bribery	<ul style="list-style-type: none"><li>• Existing instruments to combat corruption and bribery</li></ul>

## 3.3 The German Accounting Standard 20



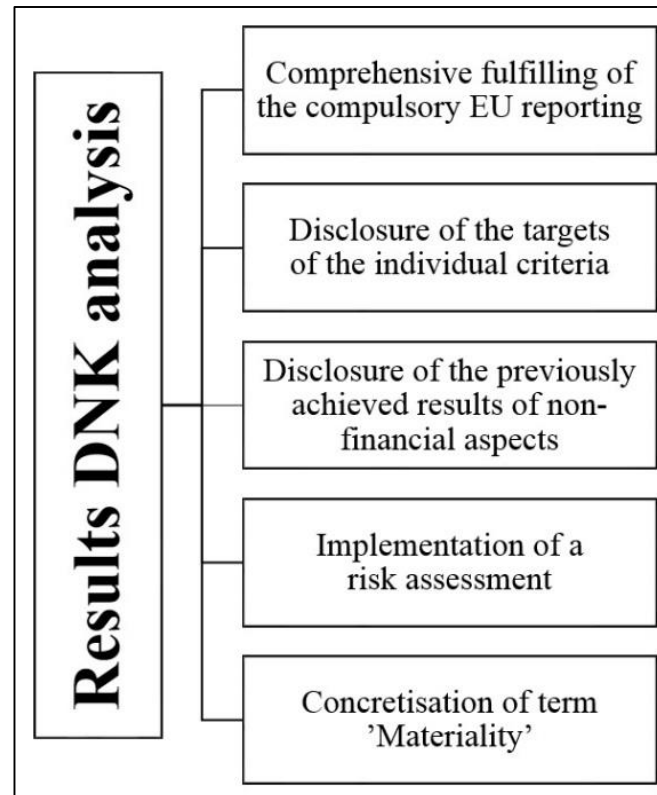
- According to GAAS 8, the **scope and time reference of objectives** has to be taken into account if they have been defined internally.
- It is also important to **state the level of target achievement of existing corporate concepts** which have to be combined with appropriate **measures** in order to **achieve the target**.
- In addition, **significant risks of the company's business activities** have to be included, which also includes the supply chains.
- GAAS 8 also stipulates that **national, European and international frameworks** can be used for the preparation of the non-financial statement.



## 4. Results of the analysis

- First, the updated version of the **German Sustainability Code meets the requirements of the EU reporting obligation** regarding non-financial and diversity information.

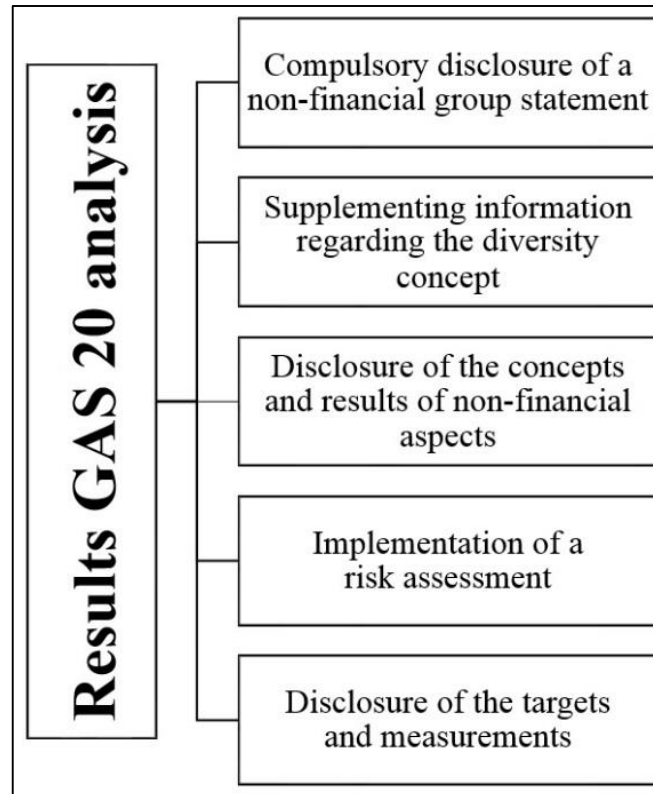
**Figure 3:** Results of the analysis of the German Sustainability Code



## 4. Results of the analysis

- The **modifications of the GAS 20** are significant, as it can be concluded that the disclosure of a **non-financial Group statement** is included in the corresponding standard for the first time.

Figure 4: Results of the analysis of the GAS 20



- The results of the analysis show an **improvement of the information** with regard to non-financial reporting on **concepts and measures** as well as the determination of the **degree of target achievement**.
- The **disclosure of potential risks** is also becoming **more relevant**.
- On the basis of these findings, the initial hypothesis can thus be confirmed.
- **The EU Directive and the associated national CSR-RUG resulted in an intensification of the disclosure of non-financial information.**

- With the decision of the **EU Directive 2014/95/EU** on the disclosure of non-financial and diversity related information for certain companies, **the issue of sustainability became more and more important, especially in corporate governance.**
- Based on the corresponding update, the German Sustainability Code is an appropriate minimum standard for companies to disclose non-financial reporting.
- Non-financial reporting is therefore integrated in the Group management report.
- **Accountants** who were previously unfamiliar with the subject matter also **have to adapt to this significant innovation.**

- **Concepts, objectives and measures** relating to non-financial aspects of business activities **have become even more significant in the context of reporting.**
- This also applies to the **risk assessment** of business activities with regard to non-financial aspects.
- Current regulations and framework conditions reinforce the **need for providing non-financial information**, especially for **small and medium-sized companies**, due to the consideration of **supply chains**.



- As of the financial year 2017, the reporting requirements will be mandatory for certain companies. **Reports** are about to be **published for the first time this year (2018)**.
- It will be interesting to assess **the quality of reporting** and **whether companies and their stakeholders really adopt the sustainability concept as their own**.

## Thank you for your attention

### **Prof. Dr. Gunther Meeh-Bunse**

University of Applied Science Osnabrück – Campus Lingen  
Kaiserstraße 10c  
49809 Lingen (Ems)  
Germany  
Phone: ++49 – 591 / 80098 221  
E-Mail: [G.Meeh-Bunse@hs-osnabrueck.de](mailto:G.Meeh-Bunse@hs-osnabrueck.de)

### **Stefan Schomaker, M. Sc.**

University of Applied Science Osnabrück – Campus Lingen  
Kaiserstraße 10c  
49809 Lingen (Ems)  
Germany  
Phone: ++49 – 591 / 80098 257  
E-Mail: [S.Schomaker@hs-osnabrueck.de](mailto:S.Schomaker@hs-osnabrueck.de)